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September - In This Issue:

INDUSTRY KNOWLEDGE & ACCESS TO BUYERS NATIONWIDE

Our presence as a Professional Business Broker is extended nationally as a result of being an affiliate of [BHarmony, LLC](#). We also bring decades of experience and functional expertise in all the popular market segments as a result. Nothing takes the place or value in that of experience.

We partner with our clients to deliver solutions that help solve their most complicated needs prior to, during, and at the conclusion of the selling process. Our services are designed specifically to help small/medium size businesses and

C-Corporation Tax Implications When Selling a Business

When you acquired or started your business years ago, you made a choice, perhaps with the help of an accountant or attorney as an advisor, as to the type of business entity you would operate as. Chances are you incorporated as a regular corporation (a C-Corporation). There are two major reasons C-Corporation status might have been chosen: (1) C-corporation tax rates are typically a little lower than individual rates (below approximately $100,000 in taxable income); and (2) start-ups typically need to re-invest much of the profits in the growth of the business, as opposed to distributing the profits to the owner.

The tax implications of a C-Corporation sale of assets are downright ugly!

The favorable capital gains tax is not available for the sale of C-Corporation assets

Unfortunately, when it's time to sell the business, from a tax standpoint a C-Corporation is by far the worst type of entity. Most owners assume when they sell their business they will be taxed at a lower capital gains rate. If you are a C-Corporation (subject to other tax provisions, such as depreciation recapture), for the most part, that may be true. However, there is no lower capital gains tax for a C-Corporation. The gain on at a small business price. We go beyond the norm to develop new insights, prepare, market and drive results in the sale, thus insuring you receive the most value at closing. **Learn More**

UNDERSTANDING ASSET VS. STOCK SALES

For business owners looking to divest their current interest in a company, there are two main ways to do this - pursue an asset sale or a stock sale.

Deciding what is most beneficial requires the evaluation of several factors. For starters, the tax implications and liabilities that come along with asset vs. stock sales could weigh more significantly on either buyer or seller. **This month concludes the article discussing Stock Sales.**

Stock sales

During a stock sale, the buyer purchases the stock of the company directly from the selling shareholders. By doing so, the acquirer comes to own all the assets, liabilities and rights of the entity being purchased. While this type of transaction is inherently different from an asset sale, it frequently results in the transfer of the same assets and liabilities. If a buyer does not want to have specific assets or liabilities after one of these sales, it can distribute or pay them off before the transaction.

the sale of the assets of a C-Corporation is taxed at normal corporate rates, which usually ranges from 34% to 39%, and there are more taxes to come! When the corporation sells its assets, the net proceeds after the corporate taxes belong to the corporation, not the owner. When those proceeds are paid out of the corporation to the owner, they are taxed again. If you've heard the term "double taxation," this is the scenario it refers to. The tax implications of a C-Corporation sale of assets are downright ugly!

For owners who fail to plan for the sale of their business and who need to sell relatively quickly, there's not a lot that can be done. Many are forced to deal with it and sell anyway. Others, who really should sell, defer the decision and ultimately are never able to sell because they let their business situation deteriorate.

Flow-through entities

Most small business sales are structured as the corporation (or entity) selling its assets. For entities other than C-Corporations (such as S-Corporations, LLCs and partnerships), the sale is not taxed at the corporate/entity level, but instead flows through as personal income to the business owners, and a substantial portion of the proceeds may qualify for capital gains tax.

A stock sale of a C-Corporation is not easily accomplished

To avoid double taxation of a C-Corporation and achieve capital gains taxation, a possible alternative is for the C-Corporation owner (stockholder) to sell his shares of stock in the corporation (as opposed to the corporation selling its assets). Unfortunately, that option is not

Benefits:
Sellers often prefer stock sales to asset sales because the proceeds are taxed at a more favorable tax rate. C corporations taking this route also do not incur corporate income tax. From the counter-party's perspective, buying a company all at once instead of one piece at a time can make it easier if the purchaser wants to continue operating the business acquired with little concern about interruption.While a stock sale will likely be a bit simpler than an asset sale, the parties involved may still need to worry about either obtaining consents to the deal, as some contracts and licenses will come with a consent requirement. In other instances, they will contain a notification requirement.

Costs:
Buyers will not receive beneficial tax treatment when participating in a stock sale, as purchasing a company in this way will not permit a buyer to enjoy the step up in basis they would as a result of taking part in an asset sale.

Picking a strategy
If business owners are thinking of selling their company outright or instead selling its assets one by one, they can benefit from carefully thinking about considerations such as what type of tax treatment they desire and also which liabilities they would prefer to have following closing.

easily accomplished. Buyers and their advisors are usually reluctant to consider a stock acquisition for two primary reasons: (1) the buyer assumes responsibility for all liabilities of the corporation, including any unknown past liabilities; and (2) there are significant tax disadvantages to the buyer from the standpoint of depreciation. In addition, many small business corporations have inadequate records of compliance with regulatory issues, or other "skeletons in the closet" that preclude the possibility of a stock sale. Depending on circumstances, a sale of C-Corporation stock may be possible, but it may be unlikely.

10 year transition period
So, why not just switch from a C-Corporation to an S-Corporation or LLC? It might be a good idea. But, here's the killer ... if you sell the business within 10 years of making that switch, you'll be taxed as a C-Corporation as if you never made the switch! Yes - 10 years. The Internal Revenue Service doesn't make it easy. (However, there is a complex way to achieve a partial tax benefit if you sell in less than 10 years after switching from a C-Corporation. We'll discuss that in our next issue.)

Over the years, I've surprised many, many owners when informing them of the tax consequences of a sale in light of their C-Corporation status. It is a very common obstacle that few business owners are aware of and takes a considerable amount of time to overcome. It may be the very best argument for the importance of planning your exit strategy from the day you start the business.

Is your business organized as a C-Corporation? Get some tax advice today!

Selecting the best possible method for selling a firm can have long-term repercussions for the company, and frequently plays a key role in whether the transaction itself is successful. The two sides should carefully consider the implications, and leverage this information to reach an outcome that benefits both parties.

Regret

A Favorite Famous Quote
"Regret for the things we did can be tempered by time;
it is regret for the things we did not do that is inconsolable."
Sydney J. Harris

DON'T MISS OUT - Interest rates are low, Strategic Buyers, Family Offices, and Private Equity Groups are very active. It costs nothing to discuss the value of your Business - contact us.

Another Favorite Famous Quote
"The Internal Revenue Code is about 10 times the size
of the Bible - and unlike the Bible, contains
no good news." Don Rickles

Overcome the Power of Inertia
Overcome the Power of Inertia and call us for a free consultation. We can provide a non-biased, educated opinion of value and help you identify obstacles to a successful sale as well as opportunities for improvement to increase the value of your business. That is a great way to start planning for a successful and profitable exit from your business.

Next Issue
Achieving a Partial C-Corporation Tax Benefit.

Contact Us Today

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